



PRESS RELEASE

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Media Contact:
David Barr (202) 898-6992

FDIC CHAIRMAN TANOUE DENOUNCES "CHARTER RENTING" AS A MEANS OF FUNDING PREDATORY PAYDAY LENDERS

Federal Deposit Insurance Corporation Chairman Donna Tanoue spoke out against banks renting out their charters to nonbank payday lenders to facilitate high-cost lending.

"The practice of renting a charter merely to collect a fee to allow a high-cost payday lender to circumvent state law is inappropriate," she told attendees last night at the Seventh Annual Greenlining Economic Development Summit in Sacramento. "It may be legal-but I don't like it."

So-called "charter renting" occurs when a bank allows nonbank lenders in other states to use the bank's authority to circumvent state caps on interest rates in exchange for a fee. The payday lender uses the bank to initially fund its loans, and then immediately buys back substantially all of the loan amounts right after funding. The payday lender then services the loans and collects the payments.

Short-term, small-dollar loans can provide a valuable service to those who need to bridge gaps in their finances. But Chairman Tanoue points out that many lenders charge excessive fees for these loans. Payday lenders typically charge \$15 to \$20 for each \$100 advanced over a two-week period, which amounts to an annual percentage rate in excess of 400 percent.

Chairman Tanoue has instructed her staff to review the practice of charter renting to determine what, if anything, can be done at a regulatory level. She also urged lawmakers and bank trade associations to develop an approach to constrain this "unbecoming practice."

Attachment: FDIC Chairman Tanoue speaks before the Seventh Annual Greenlining Economic Development Summit



Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. It promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars — insured financial institutions fund its operations.

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